

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Muskegon Charter Township</b>	County <b>Muskegon</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>5/16/06</b>	Date Accountant Report Submitted to State: <b>6/8/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

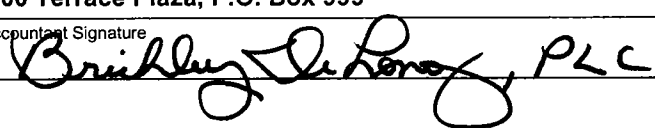
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong, PLC</b>			
Street Address <b>500 Terrace Plaza, P.O. Box 999</b>	City <b>Muskegon</b>	State <b>MI</b>	ZIP <b>49443-0999</b>
Accountant Signature 		Date <b>6/8/06</b>	

Muskegon Charter Township  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended December 31, 2005

# Muskegon Charter Township

## TABLE OF CONTENTS

Management's Discussion and Analysis.....	i - xi
Independent Auditors' Report.....	1
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities .....	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet.....	4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	5
Statement of Revenues, Expenditures and Changes in Fund Balances .....	6
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	7
Proprietary Funds	
Statement of Net Assets.....	8
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	9
Statement of Cash Flows .....	10
Statement of Fiduciary Assets and Liabilities.....	11
Notes to Financial Statements .....	12
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund .....	31
Budgetary Comparison Schedule—Public Safety Fund .....	32
Other Supplemental Information	
Other Governmental Funds	
Combining Balance Sheet.....	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits) .....	35

# Muskegon Charter Township

## Management's Discussion and Analysis

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As management of Muskegon Charter Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

### **FINANCIAL HIGHLIGHTS**

At the close of the year, the Township had total assets of \$43,358,060 and total liabilities of \$17,697,832 leaving net assets of \$25,660,228, an increase of 1.4%.

Of the total \$25,660,228 in net assets, the Township may use \$10,467,387 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors. Of the unrestricted net assets, \$650,631 are shown in governmental activities and \$9,816,756 are shown in business-type activities.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

# Muskegon Charter Township

## Management's Discussion and Analysis

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Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Township include water distribution, sanitation and sewer services.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Muskegon Charter Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Public Safety Fund, which are considered major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary Funds.** The Township has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses enterprise funds to account for its water distribution, sanitation and sewer operations.

# Muskegon Charter Township

## Management's Discussion and Analysis

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Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for the Eastside Water, Sanitation and Sewer funds, all of which are major funds.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund and Public Safety Fund.

The combining statements referred to earlier in connection with the non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

### Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, 2005, the Township's net assets from governmental activities totaled \$4,571,572 (18%) and \$21,088,656 (82%) from business-type activities, creating a total government-wide net assets total of \$25,660,228.

# Muskegon Charter Township

## Management's Discussion and Analysis

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$650,631. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$21,088,656 in net assets including \$9,816,756 in unrestricted net assets. The Eastside Water Fund, Sanitation Fund and Sewer Fund unrestricted net assets are \$3,260,347, \$362,871 and \$6,193,538, respectively.

### Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets and						
other assets	\$ 4,024,174	\$ 3,855,660	\$ 13,586,960	\$ 12,910,932	\$ 17,611,134	\$ 16,766,592
Capital assets	4,362,592	4,804,479	21,384,334	20,832,773	25,746,926	25,637,252
Total assets	8,386,766	8,660,139	34,971,294	33,743,705	43,358,060	42,403,844
Current liabilities	3,119,319	3,029,141	6,672,991	5,654,470	9,792,310	8,683,611
Noncurrent liabilities	695,875	958,079	7,209,647	7,456,042	7,905,522	8,414,121
Total liabilities	3,815,194	3,987,220	13,882,638	13,110,512	17,697,832	17,097,732
Net assets						
Invested in capital						
assets, net of related						
debt	3,550,672	3,036,718	11,271,900	11,621,779	14,822,572	14,658,497
Restricted	370,269	401,615	-	-	370,269	401,615
Unrestricted	650,631	1,234,586	9,816,756	9,011,414	10,467,387	10,246,000
Total net assets	\$ 4,571,572	\$ 4,672,919	\$ 21,088,656	\$ 20,633,193	\$ 25,660,228	\$ 25,306,112

# Muskegon Charter Township

## Management's Discussion and Analysis

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There were no significant changes in governmental activity current assets while capital assets show a decrease of \$441,887 due to normal depreciation. The business-type activities shows an increase in capital assets due to on-going water and sewer expansion projects and also the purchase of a new garbage truck in the Sanitation Fund. In the liability section, business-type activities show an increase in current liabilities due to large payable to County for water project costs, a \$350,000 increase in a bond anticipation note, and the first principal payment for the 2004 Water Bond is due in November 2006.

### **Governmental Activities**

Governmental activities decreased by \$101,347 (2%) during the 2005 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

The Township's charges for services increased by \$174,756 in 2005. This was due mainly to larger contract payments received from Laketon Township for fire service protection. After selling some property in 2004, the Township did not have any significant sales of capital assets in the current year. The Township's public safety expenditures increased \$250,320. This increase was due to increased insurance costs and larger Homeland Security grant expenditures for new turnout gear.

### **Business-type Activities**

At the end of the fiscal year, the net assets for business-type activities increased by \$455,463 or 2%. Three funds comprise the business-type activities. The Eastside Water Fund had an increase in net assets of \$295,592, the Sanitation Fund had an increase in net assets of \$43,785, and the Sewer Fund had an increase in net assets of \$116,086.

The Township's charges for services in the business-type activities increased \$379,204 in 2005 as a result of a significant rate increase in the Water Fund. Capital grants and contributions were down \$386,766 in 2005 due to large connection fees collected in 2004 from Orchard View Schools for the new high school. Business-type activities expenses in the Water Fund increased by \$347,343, due to a large increase in wholesale water charges paid to the City of Muskegon.



# Muskegon Charter Township

## Management's Discussion and Analysis

### Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 1,364,323	\$ 1,189,567	\$ 2,743,379	\$ 2,364,175	\$ 4,107,702	\$ 3,553,742
Operating grants	60,284	47,140	-	-	60,284	47,140
Capital grants and contributions	302,624	293,404	408,670	837,603	711,294	1,131,007
General revenues						
Property taxes	2,087,470	2,002,838	1,426	556	2,088,896	2,003,394
Grants and contributions not restricted	1,690,280	1,656,767	-	-	1,690,280	1,656,767
Unrestricted investment earnings	89,852	37,929	198,404	109,604	288,256	147,533
Miscellaneous	77,316	119,709	-	-	77,316	119,709
Gain (loss) on sale of capital assets	5,846	346,666	-	(4,664)	5,846	342,002
<b>Total revenues</b>	<b>5,677,995</b>	<b>5,694,020</b>	<b>3,351,879</b>	<b>3,307,274</b>	<b>9,029,874</b>	<b>9,001,294</b>
<b>Expenses:</b>						
General government	1,285,611	1,292,344	-	-	1,285,611	1,292,344
Public safety	3,313,886	3,063,566	-	-	3,313,886	3,063,566
Public works	913,011	833,327	-	-	913,011	833,327
Community and economic development	24,434	20,873	-	-	24,434	20,873
Culture and recreation	161,669	149,383	-	-	161,669	149,383
Interest on long term debt	45,742	57,323	-	-	45,742	57,323
Eastside Water Fund	-	-	1,283,492	936,149	1,283,492	936,149
Sanitation Fund	-	-	445,146	403,471	445,146	403,471
Sewer Fund	-	-	1,202,767	1,071,983	1,202,767	1,071,983
<b>Total expenses</b>	<b>5,744,353</b>	<b>5,416,816</b>	<b>2,931,405</b>	<b>2,411,603</b>	<b>8,675,758</b>	<b>7,828,419</b>
Increase in net assets before transfers	(66,358)	277,204	420,474	895,671	354,116	1,172,875
Transfers	(34,989)	(90,084)	34,989	90,084	-	-
Change in net assets	(101,347)	187,120	455,463	985,755	354,116	1,172,875
Net assets - Beginning	4,672,919	4,485,799	20,633,193	19,647,438	25,306,112	24,133,237
<b>Net assets - Ending</b>	<b>\$ 4,571,572</b>	<b>\$ 4,672,919</b>	<b>\$ 21,088,656</b>	<b>\$ 20,633,193</b>	<b>\$ 25,660,228</b>	<b>\$ 25,306,112</b>

### Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the governmental funds reported a combined fund balance of \$983,828. This number represents the fund balance of \$417,408 in the General Fund, \$100,734 in the Public Safety Fund and \$465,686 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$27,248 and pay debt service of \$247,268.

**Proprietary Funds.** The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Eastside Water Fund, Sanitation Fund and Sewer Fund increased by \$295,592, \$43,785 and \$116,086, respectively. The result was an overall net increase in the proprietary funds of \$455,463.

### General Fund Budget

During the current fiscal year, the Township made several amendments to its original General Fund budget. The most significant of those is listed below:

- Federal intergovernmental revenue was not originally budgeted for and was amended to \$171,755 because the Township received a homeland security grant for the purchase of fire equipment and a FEMA grant for disaster relief assistance in New Orleans.
- Financial administration was originally budgeted for \$186,001 and was amended up to \$230,851 because audit and legal fees both exceeded expectation due to the costs of implementing new accounting standard requirements and contract negotiations.
- The Fire department was originally budgeted for \$754,650 and was amended up to \$926,905 because the Township received a homeland security grant for the purchase of fire equipment.
- The Planning department was originally budgeted for \$42,300 and was amended down to \$24,300 because contingency money not spent in that department was used to pay for other various line items that exceeded their original budget.
- Payroll benefits was originally budgeted for \$631,700 and was amended down to \$579,305 because the wage escrow contingency amount budgeted for was not used and was transferred to financial administration to cover the anticipated audit and legal fees mentioned above.

### Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- General Fund state intergovernmental revenues are \$1,715,620, \$35,520 more than budgeted because the Township received a grant to purchase new voting machines that was not budgeted.
- General Fund charges for services are \$346,083, \$52,843 more than budgeted because the administrative fee charged to the water fund exceeded the amount budgeted by \$25,000, revenue from Egelston Township for fire chief services was not budgeted, and site plan review revenue was higher than expected.
- General Fund investment earnings are \$69,023, \$34,023 more than budgeted because interest rates on our investment and savings accounts exceeded anticipated rates.
- General Fund insurance is \$821,683, \$44,317 less than budgeted because the Township received a higher than expected refund from its worker's compensation policy.
- General Fund payroll benefits are \$493,271, \$86,034 less than budgeted because the wage escrow contingency budgeted for was not spent.
- General Fund capital outlay is \$58,147, \$42,367 more than budgeted because the Township purchased new voting machines with grant money that was not anticipated during the year.
- Public Safety Fund expenditures are \$438,710, \$47,419 less than budgeted because general capital outlay expenditures planned for were not purchased and training wages were lower than anticipated due to the Fire Chief's vigilance.

### Capital Assets

The Township's investment in capital assets for its governmental and business-type activities as of December 31, 2005 totaled \$25,746,926, (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, furniture, machinery, equipment, utility systems and vehicles.

Major capital asset events during the current year included the following:

- The State of Michigan donated voting machines to the Township, valued at \$47,680.
- A new pavilion was built at Parslow Park, costing \$10,467, which was paid for with donations from Eastside Extravaganza.
- Two police cruisers were purchased for \$20,092 each.
- A mini pumper fire vehicle was purchased for \$165,184.
- A fire department vehicle was purchased for \$21,981.
- The Township's water system expanded this year, the most significant was the Laketon Industrial Park loop, at a cost of \$417,425.
- The water department also constructed a new booster pumping station for \$938,277.
- The sanitation department purchased a new crane carrier for \$168,900.
- The sewer department purchased land for \$24,767.
- The Township's sewer system expanded this year, the most significant was the four-mile interceptor for \$263,526 and at Dangl and Mill Iron, north of Apple Avenue for \$2,018,832.

# Muskegon Charter Township

## Management's Discussion and Analysis

### Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 381,599	\$ 381,599	\$ 40,733	\$ 15,966	\$ 422,332	\$ 397,565
Construction in progress	692,765	430,507	630,340	4,398,683	1,323,105	4,829,190
Land improvements	504,361	523,511	-	-	504,361	523,511
Buildings and improvements	1,879,620	1,945,668	-	-	1,879,620	1,945,668
Furniture, machinery and equipment	132,807	117,452	-	-	132,807	117,452
Vehicles	771,440	734,086	202,891	104,178	974,331	838,264
Utility systems	-	-	20,510,370	12,778,519	20,510,370	12,778,519
Total	<u>\$ 4,362,592</u>	<u>\$ 4,132,823</u>	<u>\$ 21,384,334</u>	<u>\$ 17,297,346</u>	<u>\$ 25,746,926</u>	<u>\$ 21,430,169</u>

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

### Long-Term Debt

At the end of the 2005 fiscal year, the Township had total outstanding debt of \$8,800,522 consisting of general obligations bonds, special assessment debt, installment purchase agreements and accumulated compensated absences. The general obligation debt of \$7,110,000 and special assessment debt of \$471,920 is backed by the full-faith and credit of the Township. Approximately \$620,403 or (7%) of the Township's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

### Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligations bonds	\$ 110,000	\$ 145,000	\$ 7,672,647	\$ 7,612,042	\$ 7,782,647	\$ 7,757,042
Special assessment bonds	471,920	611,105	-	-	471,920	611,105
Installment purchase agreements	230,000	340,000	-	-	230,000	340,000
Accumulated compensated absences	315,955	288,035	-	-	315,955	288,035
Total	<u>\$ 1,127,875</u>	<u>\$ 1,384,140</u>	<u>\$ 7,672,647</u>	<u>\$ 7,612,042</u>	<u>\$ 8,800,522</u>	<u>\$ 8,996,182</u>

# Muskegon Charter Township

## Management's Discussion and Analysis

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The Township's total debt decreased by \$195,660 during the fiscal year. This decrease was due to normal debt payoffs, offset by additional borrowings related to the County wastewater disposal system.

Additional information on the Township's long-term debt can be found in Note J of the "Notes to the Financial Statements" of this report.

### General Economic Overview

The Township's General Fund has two major revenue sources - state revenue sharing and property tax revenue. Those two sources comprise over 75% of the General Fund revenue sources. In fiscal 2006, state constitutional revenue sharing is expected to rise moderately, while statutory revenue sharing is expected to remain flat. Property tax revenues are expected to increase by 3.3%, in addition to any new development that occurs.

The 2006 General Fund budget is down 8.5% from 2005. It will be drawing down on fund balance for the 4<sup>th</sup> year in a row. The fund balance of the General Fund is expected to remain below 10% of operating expenses.

All three Township union contracts were settled in 2004 and 2005, and all bargaining groups agreed upon increased prescription drug co-pays, which result in a savings to the Township. A hiring freeze is still being considered. The Township has opened up talks with the Muskegon County Road Commission on the possibility of modernizing the relationship between us to reflect the provisions contained in P.A. No. 5 of 2005. Those talks are still ongoing, but the reality is that we will be getting Act 51 moneys for the operation of our Highway Department. An administration fee has been drawn from the Eastside Water Fund for the third year, and has increased slightly every year as we gain experience and knowledge as to how much employee and administrative time is spent on water related matters. The Township is engaging in a chip and seal program with the Road Commission for maintenance of our secondary roads. Although we skipped this program last year, we have budgeted \$40,000 for 2006.

The Township Board and staff remain optimistic that the Township's economic stability will be further enhanced by several projects and other variables in various stages of maturity. These include the sale of lots in the new Industrial Park, continued development in the residential and commercial sectors, and recognition in Lansing that revenue sharing must stabilize. All three bargaining groups have settled contracts with the Township without outside help and the costs associated with that help. Sewer expansions are continuing, with the end result being virtually every street in the Township having sewer service. The Township has amended its sewer ordinance to allow rate changes to be implemented by resolution. We will be changing the commercial rate from \$.63 per unit to \$1.65 per unit, which will result in increased revenues into the fund. Major water expansions are occurring on the north side of the Township, which will result in increased building activity, especially in the residential sector.

### **Requests for Information**

This financial report is designed to provide a general overview of Muskegon Charter Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Muskegon Charter Township, 1990 E. Apple Avenue, Muskegon, Michigan, 49442, (231) 777-2555.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

May 16, 2006

Township Board  
Muskegon Charter Township  
Muskegon, Michigan

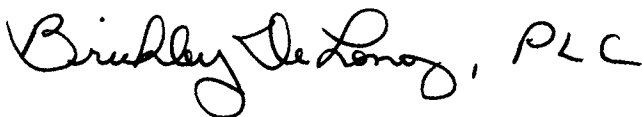
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Muskegon Charter Township, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskegon Charter Township, Michigan, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - xi and 31 - 32 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muskegon Charter Township, Michigan's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Muskegon Charter Township  
STATEMENT OF NET ASSETS  
December 31, 2005

ASSETS

	Governmental activities	Business-type activities	Total
<b>CURRENT ASSETS</b>			
Cash and investments	\$ 1,463,224	\$ 8,500,951	\$ 9,964,175
Receivables	1,617,687	744,543	2,362,230
Due from other governmental units	641,604	-	641,604
Internal balances	(97,515)	97,515	-
Prepaid items	27,248	855	28,103
Restricted assets	-	2,456,476	2,456,476
Total current assets	<u>3,652,248</u>	<u>11,800,340</u>	<u>15,452,588</u>
<b>NONCURRENT ASSETS</b>			
Capital assets, net			
Nondepreciable	1,074,364	671,073	1,745,437
Depreciable	3,288,228	20,713,261	24,001,489
Access rights, net	-	374,364	374,364
Bond issue costs, net	-	79,373	79,373
Notes and special assessments receivable	<u>371,926</u>	<u>1,332,883</u>	<u>1,704,809</u>
Total noncurrent assets	<u>4,734,518</u>	<u>23,170,954</u>	<u>27,905,472</u>
Total assets	<u>8,386,766</u>	<u>34,971,294</u>	<u>43,358,060</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	288,064	750,797	1,038,861
Due to other governmental units	272	108,518	108,790
Deferred revenue	2,398,983	676	2,399,659
Bond anticipation note	-	5,350,000	5,350,000
Bonds and other obligations, due within one year	<u>432,000</u>	<u>463,000</u>	<u>895,000</u>
Total current liabilities	3,119,319	6,672,991	9,792,310
<b>NONCURRENT LIABILITIES</b>			
Bonds and other obligations, less amounts due within one year	<u>695,875</u>	<u>7,209,647</u>	<u>7,905,522</u>
Total liabilities	<u>3,815,194</u>	<u>13,882,638</u>	<u>17,697,832</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,550,672	11,271,900	14,822,572
Restricted for:			
Public safety	141,901	-	141,901
Debt service	228,368	-	228,368
Unrestricted	<u>650,631</u>	<u>9,816,756</u>	<u>10,467,387</u>
Total net assets	<u>\$ 4,571,572</u>	<u>\$ 21,088,656</u>	<u>\$ 25,660,228</u>

The accompanying notes are an integral part of this statement.



Muskegon Charter Township  
**STATEMENT OF ACTIVITIES**  
For the year ended December 31, 2005

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 1,285,611	\$ 527,459	\$ -	\$ -	\$ (758,152)	\$ -	\$ (758,152)
Public safety	3,313,886	524,578	60,284	145,269	(2,583,755)	-	(2,583,755)
Public works	913,011	279,403	-	157,355	(476,253)	-	(476,253)
Community and economic development	24,434	1,475	-	-	(22,959)	-	(22,959)
Culture and recreation	161,669	31,408	-	-	(130,261)	-	(130,261)
Interest on long-term debt	45,742	-	-	-	(45,742)	-	(45,742)
Total governmental activities	5,744,353	1,364,323	60,284	302,624	(4,017,122)	-	(4,017,122)
Business-type activities							
Eastside water	1,283,492	1,269,256	-	234,517	-	220,281	220,281
Sanitation	445,146	482,933	-	-	-	37,787	37,787
Sewer	1,202,767	991,190	-	174,153	-	(37,424)	(37,424)
Total business-type activities	2,931,405	2,743,379	-	408,670	-	220,644	220,644
Total government	\$ 8,675,758	\$ 4,107,702	\$ 60,284	\$ 711,294	(4,017,122)	220,644	(3,796,478)
General revenues							
Property taxes, levied for							
General purposes					1,358,075	-	1,358,075
Specific purposes					729,395	1,426	730,821
Grants and contributions not restricted to specific programs					1,690,280	-	1,690,280
Unrestricted investment earnings					89,852	198,404	288,256
Miscellaneous					77,316	-	77,316
Gain on sale of capital assets					5,846	-	5,846
Transfers					(34,989)	34,989	-
Total general revenues and transfers					3,915,775	234,819	4,150,594
Change in net assets					(101,347)	455,463	354,116
Net assets at January 1, 2005					4,672,919	20,633,193	25,306,112
Net assets at December 31, 2005					\$ 4,571,572	\$ 21,088,656	\$ 25,660,228

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**BALANCE SHEET**  
Governmental Funds  
December 31, 2005

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
<b>ASSETS</b>				
Cash and investments	\$ 107,575	\$ 359,932	\$ 995,717	\$ 1,463,224
Receivables				
Accounts	70,888	-	2,034	72,922
Property taxes	855,725	393,095	217,214	1,466,034
Special assessments	-	-	450,658	450,658
Due from other governmental units	586,294	-	55,310	641,604
Due from other funds	369,928	-	63,000	432,928
Prepaid items	18,730	8,518	-	27,248
Total assets	<u>\$ 2,009,140</u>	<u>\$ 761,545</u>	<u>\$ 1,783,933</u>	<u>\$ 4,554,618</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 83,782	\$ 16,057	\$ 73,005	\$ 172,844
Accrued liabilities	95,726	594	-	96,320
Due to other governmental units	-	-	272	272
Due to other funds	10,000	-	234,443	244,443
Deferred revenue	1,402,224	644,160	724,527	2,770,911
Advances from other funds	-	-	286,000	286,000
Total liabilities	<u>1,591,732</u>	<u>660,811</u>	<u>1,318,247</u>	<u>3,570,790</u>
Fund balances (deficits)				
Reserved for:				
Prepaid items	18,730	8,518	-	27,248
Debt service	-	-	247,268	247,268
Unreserved				
Undesignated, reported in				
General Fund	398,678	-	-	398,678
Special revenue funds	-	92,216	403,837	496,053
Capital projects funds	-	-	(185,419)	(185,419)
Total fund balances	<u>417,408</u>	<u>100,734</u>	<u>465,686</u>	<u>983,828</u>
Total liabilities and fund balances	<u>\$ 2,009,140</u>	<u>\$ 761,545</u>	<u>\$ 1,783,933</u>	<u>\$ 4,554,618</u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 December 31, 2005

Total fund balance—governmental funds		\$ 983,828
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 7,320,787	
Accumulated depreciation	<u>(2,958,195)</u>	4,362,592
Accrued interest in governmental activities is not reported in the governmental funds.		(18,900)
Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.		371,927
Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
Bonds and notes payable	(811,920)	
Compensated absences	<u>(315,955)</u>	<u>(1,127,875)</u>
Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>4,571,572</u></u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended December 31, 2005

	General Fund	Public Safety Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 1,491,563	\$ 583,574	\$ 145,821	\$ 2,220,958
Licenses and permits	346,943	-	-	346,943
Intergovernmental revenues				
Federal	165,923	-	157,355	323,278
State	1,715,620	-	-	1,715,620
Charges for services	346,083	-	433,216	779,299
Fines and forfeitures	31,588	-	-	31,588
Investment earnings	69,023	3,216	17,612	89,851
Other	82,793	2,414	157,049	242,256
Total revenues	4,249,536	589,204	911,053	5,749,793
EXPENDITURES				
Current				
General government	690,923	-	-	690,923
Public safety	2,032,282	438,710	-	2,470,992
Public works	381,725	-	156,658	538,383
Community and economic development	24,434	-	-	24,434
Culture and recreation	132,051	-	-	132,051
Other governmental functions	1,341,766	-	105,822	1,447,588
Debt service				
Principal	35,000	70,000	179,185	284,185
Interest and fees	7,110	7,190	36,543	50,843
Capital outlay	58,147	40,184	449,423	547,754
Total expenditures	4,703,438	556,084	927,631	6,187,153
Excess of revenues over (under) expenditures	(453,902)	33,120	(16,578)	(437,360)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	4,445	4,065	-	8,510
Transfers in	89,000	-	70,694	159,694
Transfers out	(10,000)	-	(184,683)	(194,683)
Total other financing sources (uses)	83,445	4,065	(113,989)	(26,479)
Net change in fund balances	(370,457)	37,185	(130,567)	(463,839)
Fund balances at January 1, 2005	787,865	63,549	596,253	1,447,667
Fund balances at December 31, 2005	\$ 417,408	\$ 100,734	\$ 465,686	\$ 983,828

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended December 31, 2005

Net change in fund balances—total governmental funds	\$	(463,839)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(315,322)	
Capital outlay		547,754	232,432

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.		(2,663)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		284,185
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		5,100
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(27,920)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.		(128,642)
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Change in net assets of governmental activities	\$	(101,347)
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The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**STATEMENT OF NET ASSETS**  
Proprietary Funds  
December 31, 2005

ASSETS

	Business-type activities - Enterprise funds			
	Eastside Water	Sanitation	Sewer	Total
CURRENT ASSETS				
Cash and investments	\$ 2,446,908	\$ 323,667	\$ 5,730,376	\$ 8,500,951
Receivables				
Accounts	318,130	112,253	259,202	689,585
Special assessments	54,958	-	-	54,958
Due from other funds	71,356	-	18,793	90,149
Prepaid items	66	723	66	855
Restricted assets	-	-	2,456,476	2,456,476
Total current assets	2,891,418	436,643	8,464,913	11,792,974
NONCURRENT ASSETS				
Capital assets				
Land	15,966	-	24,767	40,733
Utility systems	6,916,660	-	21,716,407	28,633,067
Furniture and equipment	-	-	600	600
Vehicles	-	692,609	-	692,609
Construction in progress	89,064	-	541,276	630,340
Less accumulated depreciation	(158,169)	(489,718)	(7,965,128)	(8,613,015)
Net capital assets	6,863,521	202,891	14,317,922	21,384,334
Advances to other funds	-	-	286,000	286,000
Access rights, net	-	-	374,364	374,364
Bond issuance costs, net	61,066	-	18,307	79,373
Notes and special assessments receivable	952,252	-	380,631	1,332,883
Total noncurrent assets	7,876,839	202,891	15,377,224	23,456,954
Total assets	10,768,257	639,534	23,842,137	35,249,928
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable	417,777	14,955	212,909	645,641
Accrued liabilities	49,515	14,657	40,984	105,156
Due to other governmental units	29,161	-	79,357	108,518
Due to other funds	86,194	44,160	148,280	278,634
Deferred revenue	676	-	-	676
Bond anticipation note	-	-	5,350,000	5,350,000
Bonds and other obligations, due within one year	250,000	-	213,000	463,000
Total current liabilities	833,323	73,772	6,044,530	6,951,625
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	6,688,009	-	521,638	7,209,647
Total liabilities	7,521,332	73,772	6,566,168	14,161,272
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	(13,422)	202,891	11,082,431	11,271,900
Unrestricted	3,260,347	362,871	6,193,538	9,816,756
Total net assets	\$ 3,246,925	\$ 565,762	\$ 17,275,969	\$ 21,088,656

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
Proprietary Funds  
For the year ended December 31, 2005

	Business-type activities - Enterprise funds			
	Eastside Water	Sanitation	Sewer	Total
REVENUES				
Charges for services	\$ 1,269,256	\$ 482,933	\$ 991,190	\$ 2,743,379
OPERATING EXPENSES				
Administration	79,851	44,160	135,312	259,323
Operations	1,107,184	330,799	518,533	1,956,516
Depreciation and amortization	96,457	70,187	510,676	677,320
Total operating expenses	1,283,492	445,146	1,164,521	2,893,159
Operating income (loss)	(14,236)	37,787	(173,331)	(149,780)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	59,115	5,998	133,291	198,404
Connection fees	234,517	-	174,153	408,670
Property taxes	-	-	1,426	1,426
Interest expense	-	-	(38,246)	(38,246)
Total nonoperating revenues (expenses)	293,632	5,998	270,624	570,254
Income (loss) before transfers	279,396	43,785	97,293	420,474
Transfers in	16,196	-	18,793	34,989
Change in net assets	295,592	43,785	116,086	455,463
Net assets at January 1, 2005	2,951,333	521,977	17,159,883	20,633,193
Net assets at December 31, 2005	\$ 3,246,925	\$ 565,762	\$ 17,275,969	\$ 21,088,656

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**STATEMENT OF CASH FLOWS**  
Proprietary Funds  
For the year ended December 31, 2005

	Business-type activities - Enterprise funds			
	Eastside Water	Sanitation	Sewer	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 1,074,907	\$ 477,760	\$ 973,537	\$ 2,526,204
Receipts from interfund services provided	4,584	1,848	2,113	8,545
Payments to suppliers	(875,068)	(265,871)	(452,389)	(1,593,328)
Payments to employees	(56,682)	(110,114)	(69,778)	(236,574)
Net cash provided by operating activities	147,741	103,623	453,483	704,847
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	16,196	-	18,793	34,989
Property taxes	-	-	1,426	1,426
Advances from other funds (net)	(570,000)	-	570,000	-
Net cash provided by (used for) non-capital financing activities	(553,804)	-	590,219	36,415
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from bond anticipation note	-	-	331,693	331,693
Connection fees	487,800	-	222,266	710,066
Purchases of capital assets	(1,770,406)	(168,900)	(2,713,071)	(4,652,377)
Principal paid on capital debt	-	-	(152,131)	(152,131)
Interest paid on capital debt	-	-	(20,379)	(20,379)
Net cash used for capital and related financing activities	(1,282,606)	(168,900)	(2,331,622)	(3,783,128)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Investment earnings	59,115	5,998	133,291	198,404
Net decrease in cash and investments	(1,629,554)	(59,279)	(1,154,629)	(2,843,462)
Cash and investments at January 1, 2005	4,076,462	382,946	9,341,481	13,800,889
Cash and investments at December 31, 2005	<u>\$ 2,446,908</u>	<u>\$ 323,667</u>	<u>\$ 8,186,852</u>	<u>\$ 10,957,427</u>
<b>Reconciliation of cash and investments to the balance sheet</b>				
Cash and investments	\$ 2,446,908	\$ 323,667	\$ 5,730,376	\$ 8,500,951
Restricted assets	-	-	2,456,476	2,456,476
	<u>\$ 2,446,908</u>	<u>\$ 323,667</u>	<u>\$ 8,186,852</u>	<u>\$ 10,957,427</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ (14,236)	\$ 37,787	\$ (173,331)	\$ (149,780)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	96,457	70,187	510,676	677,320
Change in assets and liabilities				
Receivables, net	(189,765)	(3,325)	(15,540)	(208,630)
Internal balances	45,194	(3,135)	(11,791)	30,268
Prepaid items	5,517	1,618	517	7,652
Accounts payable	204,574	491	142,952	348,017
Net cash provided by operating activities	<u>\$ 147,741</u>	<u>\$ 103,623</u>	<u>\$ 453,483</u>	<u>\$ 704,847</u>
<b>Noncash financing activities</b>				
Assumption of additional County debt	\$ -	\$ -	\$ 220,649	\$ 220,649

The accompanying notes are an integral part of this statement.



Muskegon Charter Township  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
 Agency Funds  
 December 31, 2005

	<u>Trust and Agency</u>	<u>Current Tax Account</u>	<u>Payroll</u>	<u>Total</u>
ASSETS				
Cash and investments	\$ 49,437	\$ 1,798,101	\$ 26,426	\$ 1,873,964
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
LIABILITIES				
Accrued liabilities	\$ -	\$ -	\$ 26,426	\$ 26,426
Due to other governmental units	49,437	1,791,113	-	1,840,550
Deposits held for others	<u>-</u>	<u>6,988</u>	<u>-</u>	<u>6,988</u>
Total liabilities	\$ 49,437	\$ 1,798,101	\$ 26,426	\$ 1,873,964
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The accompanying notes are an integral part of this statement.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Muskegon Charter Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

***Reporting Entity***

The Township is a municipal corporation governed by an elected seven-member Board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part the government's operations.

**Blended component unit**

*Building Authority.* The Muskegon Charter Township Building Authority (Authority) serves all the citizens of the Township and is governed by a Board appointed by the Township's Board. The primary purpose of the Authority is to acquire and construct Township facilities. The Authority issues bonds that are approved by the Township Board, and the legal liability for the Authority's debt remains with the Township. The Authority then leases the assets to the Township to finance the repayment of the bonds.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Public Safety Fund is used to account for a special tax millage levied by the Township for the operation of the police and fire departments.

The Township reports the following three major proprietary funds:

The Eastside Water Fund operates the Township's water distribution system.

The Sanitation Fund accounts for user charges and for operating expenses and debt service of the Township's sanitation department.

The Sewer Fund operates the Township's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Township's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

***Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued***

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

***Assets, Liabilities and Net Assets or Equity***

**Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Township intends to hold the investment until maturity.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

All investments are stated at fair value.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity*

**Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. Taxes levied on December 1 are recorded as receivables and deferred revenue. Taxes are recognized as revenue (and become available for appropriation) in the calendar year following the levy.

The 2004 state taxable value for real/personal property of the Township totaled approximately \$301,599,000. The ad valorem taxes levied consisted of 4.3534, .4703 and 1.8817 mills for the Township's general operating, street lighting and public safety purposes. These amounts are recognized in the respective General Fund, Street Lighting Fund, and Public Safety Fund.

**Inventories and Prepaid Items**

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Restricted Assets**

Certain cash and investments from a debt issue in the Sewer Fund that are unspent are shown as restricted because their use is restricted to construction.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Eastside Water Fund during the year ended December 31, 2005 was \$298,082. The entire amount was included as part of the cost of capital assets under construction in connection with the expansion of the water system. The total interest expense incurred by the Sewer Fund during the year ended December 31, 2005 was \$86,395. Of this amount, \$48,149 was included as part of the cost of capital assets under construction in connection with the expansion of the sewer system.

Property, plant and equipment is depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	30-40
Utility systems	50
Land improvements	20-30
Furniture and equipment	5-10
Vehicles	5-10
Access rights	20

**Compensated Absences**

Township employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Employees must use earned vacation time during the anniversary year following the one in which it was earned. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 180 days for employees. One half of all unused accumulated sick leave is paid to employees who retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to December 1, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Prior to December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds. The Township Board made several supplemental budgetary appropriations throughout the year.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Excess of Expenditures Over Appropriations**

For the year ended December 31, 2005, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
Financial administration	\$ 230,851	\$ 235,266
Police department	911,573	921,152
Highways and streets	356,162	362,179
Leaf collection	15,000	19,546
Capital outlay	15,780	58,147
Economic Development Fund	-	262,358
Southside Water System Fund	-	16,196

These overexpenditures were funded with available fund balance.

**Fund Deficit**

As of December 31, 2005, the Township's 2003 Paving Project Fund had an undesignated fund deficit of \$185,419. The deficit will be eliminated through the collection of special assessments.

**NOTE C—DEPOSITS AND INVESTMENTS**

As of December 31, 2005, the Township had the following investments:

Investment Type	Fair value	Weighted average maturity (Months)	Moody's	Percent
Money market mutual fund	\$ 179,393	5	AAA	9.5 %
U.S. Agency obligations	1,087,750	9	AAA	57.8
Negotiable certificates of deposit	289,594	6	not rated	15.4
U.S. Agency obligations mutual fund	323,853	15	not rated	17.3
Total fair value	\$ 1,880,590			100.0 %
Portfolio weighted average maturity		9		

**Interest rate risk.** The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Township has no investment policy that would further limit its investment choices.



Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**Concentration of credit risk.** The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5 percent of the Township's investments are in negotiable certificates of deposit issued by Sterling Bank and Mercantile Bank, and in obligations issued by the Federal Home Loan Bank. These investments are 5.16 percent, 5.16 percent, and 57.84 percent, respectively, of the Township's investments.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2005, \$8,408,381 of the Township's bank balance of \$8,608,381 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The Township is not authorized to invest in investments which have this type of risk.

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 381,599	\$ -	\$ -	\$ 381,599
Construction in progress	430,507	262,258	-	692,765
Total capital assets, not being depreciated	812,106	262,258	-	1,074,364
<b>Capital assets, being depreciated:</b>				
Land improvements	984,525	10,467	-	994,992
Buildings and improvements	2,618,246	-	-	2,618,246
Furniture and equipment	396,171	47,680	53,270	390,581
Vehicles	2,035,255	227,349	20,000	2,242,604
Total capital assets, being depreciated	6,034,197	285,496	73,270	6,246,423

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE D—CAPITAL ASSETS—Continued**

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>Governmental activities:</b>				
<b>Less accumulated depreciation:</b>				
Land improvements	\$ 461,014	\$ 29,617	\$ -	\$ 490,631
Buildings and improvements	672,578	66,049	-	738,627
Furniture and equipment	278,719	29,661	50,607	257,773
Vehicles	1,301,169	189,995	20,000	1,471,164
Total accumulated depreciation	<u>2,713,480</u>	<u>315,322</u>	<u>70,607</u>	<u>2,958,195</u>
Total capital assets, being depreciated, net	<u>3,320,717</u>	<u>(29,826)</u>	<u>2,663</u>	<u>3,288,228</u>
Capital assets, net	<u><u>\$ 4,132,823</u></u>	<u><u>\$ 232,432</u></u>	<u><u>\$ 2,663</u></u>	<u><u>\$ 4,362,592</u></u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 15,966	\$ 24,767	\$ -	\$ 40,733
Construction in progress	4,398,683	4,458,710	8,227,053	630,340
Total capital assets, not being depreciated	4,414,649	4,483,477	8,227,053	671,073
<b>Capital assets, being depreciated:</b>				
Utility systems	20,406,014	8,227,053	-	28,633,067
Furniture and equipment	600	-	-	600
Vehicles	542,472	168,900	18,763	692,609
Total capital assets, being depreciated	20,949,086	8,395,953	18,763	29,326,276
<b>Less accumulated depreciation:</b>				
Utility systems	7,627,495	495,202	-	8,122,697
Furniture and equipment	600	-	-	600
Vehicles	438,294	70,187	18,763	489,718
Total accumulated depreciation	<u>8,066,389</u>	<u>565,389</u>	<u>18,763</u>	<u>8,613,015</u>
Total capital assets, being depreciated, net	<u>12,882,697</u>	<u>7,830,564</u>	<u>-</u>	<u>20,713,261</u>
Capital assets, net	<u><u>\$ 17,297,346</u></u>	<u><u>\$ 12,314,041</u></u>	<u><u>\$ 8,227,053</u></u>	<u><u>\$ 21,384,334</u></u>

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE D—CAPITAL ASSETS—Continued**

**Depreciation**

Depreciation expense has been charged to functions as follows:

**Governmental activities:**

General government	\$ 34,968
Public safety	202,077
Public works	48,660
Culture and recreation	<u>29,617</u>
	<u>\$ 315,322</u>

**Business-type activities:**

Eastside water	\$ 94,282
Sanitation	70,187
Sewer	<u>400,920</u>
	<u>\$ 565,389</u>

**NOTE E—ACCESS RIGHTS**

Access rights activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
Business-type activities				
Access rights	\$ 1,712,919	\$ 195,466	\$ 1,135,613	\$ 772,772
Less accumulated amortization	<u>1,424,265</u>	<u>109,756</u>	<u>1,135,613</u>	<u>398,408</u>
Access rights, net	<u>\$ 288,654</u>	<u>\$ 85,710</u>	<u>\$ -</u>	<u>\$ 374,364</u>

**Amortization**

Amortization expense has been charged to sewer.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE F—BOND ISSUANCE COSTS**

Bond issuance cost activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>Business-type activities:</b>				
Bond issuance costs	\$ 65,234	\$ 18,307	\$ -	\$ 83,541
Less accumulated amortization	<u>1,993</u>	<u>2,175</u>	<u>-</u>	<u>4,168</u>
Bond issuance costs, net	<u>\$ 63,241</u>	<u>\$ 16,132</u>	<u>\$ -</u>	<u>\$ 79,373</u>

**Amortization**

Amortization expense has been charged to interest.

**NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of December 31, 2005 is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 94,450
General Fund	Eastside Water Fund	86,194
General Fund	Sanitation Fund	44,160
General Fund	Sewer Fund	145,124
Eastside Water Fund	Other governmental funds	71,200
Eastside Water Fund	Sewer Fund	156
Sewer Fund	Other governmental funds	18,793
Other governmental funds	General Fund	10,000
Other governmental funds	Sewer Fund	3,000
Other governmental funds	Other governmental funds	<u>50,000</u>
		<u>\$ 523,077</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued**

**Advances to/from other funds:**

Other governmental funds owe the Sewer Fund \$286,000 for capital projects.

**Interfund transfers:**

	Transfers in:				Total	Purpose
	General Fund	Eastside Water Fund	Sewer Fund	Other governmental funds		
Transfers out:						
General Fund	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000	Operations subsidy
Other governmental funds	89,000	16,196	18,793	60,694	184,683	Operations subsidy, capital projects, and close fund
Total	<u>\$ 89,000</u>	<u>\$ 16,196</u>	<u>\$ 18,793</u>	<u>\$ 70,694</u>	<u>\$ 194,683</u>	

**NOTE H—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Property taxes	\$ 1,347,080	\$ 860,322
Special assessments	563,509	-
Total deferred revenue for governmental funds	<u>\$ 1,910,589</u>	<u>\$ 860,322</u>

**NOTE I—BOND ANTICIPATION NOTE**

On November 1, 2005, Muskegon County issued a \$5,350,000 Bond Anticipation Note (interest at 3.40%) on behalf of the Township, due November 1, 2006. The new BAN was used to refinance a BAN that had come due. The Township expects to refinance this obligation prior to the November 1, 2006 due date. The proceeds of the note are restricted for improvements to the Township's sewer system. The note is secured with the full faith and credit of the Township.

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>Business-type activities:</b>				
Bond Anticipation Note	<u>\$ 5,000,000</u>	<u>\$ 5,350,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,350,000</u>

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE J—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Township for the year ended December 31, 2005.

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005	Due within one year
<b>Governmental activities:</b>					
General obligation bonds	\$ 145,000	\$ -	\$ 35,000	\$ 110,000	\$ 35,000
Special assessment debt					
with Township commitment	611,105	-	139,185	471,920	139,000
Installment purchase					
agreements	340,000	-	110,000	230,000	110,000
Compensated absences	288,035	194,536	166,616	315,955	148,000
	<u>1,384,140</u>	<u>194,536</u>	<u>450,801</u>	<u>1,127,875</u>	<u>432,000</u>
Governmental activity long-term liabilities	\$ <u>1,384,140</u>	\$ <u>194,536</u>	\$ <u>450,801</u>	\$ <u>1,127,875</u>	\$ <u>432,000</u>
<b>Business-type activities:</b>					
General obligation bonds	\$ <u>7,612,042</u>	\$ <u>242,748</u>	\$ <u>182,143</u>	\$ <u>7,672,647</u>	\$ <u>250,000</u>

**Governmental activities:**

**General obligation bonds:**

\$380,000 Building Authority Bonds of 1993 due  
in annual installments of \$35,000 to \$40,000  
through April 2008; interest at rates varying  
from 5.50% to 5.70%

\$ 110,000

**Special assessment debt with Township commitment:**

\$307,006 Northside Water Special Assessment Bonds  
due in annual installments of \$2,100 to \$9,018  
through July 2015; interest at 8.00%

46,920

\$460,000 Special Assessment Bonds of 1996; final  
payment of \$45,000 due April 2006; interest at  
5.65%

45,000

\$235,000 Special Assessment Bonds of 1998 due in  
annual installments of \$25,000 through February  
2008; interest at rates varying from 4.3% to 4.45%

75,000

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE J—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

**Governmental activities—Continued**

**Special assessment debt with Township commitment—Continued**

\$203,000 Special Assessment Bonds of 2000 due in annual installments of \$20,000 to \$25,000 through February 2010; interest at 5.20%	\$ 110,000
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\$315,000 Special Assessment Bonds of 2001 due in annual installments of \$30,000 to \$35,000 through March 2011; interest rates varying from 3.80% to 4.50%	195,000
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**Installment purchase agreements:**

\$700,000 Fire Station Construction Contract of 1996; final payment of \$70,000 due November 2006; interest at 5.10%	70,000
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\$400,000 Fire Truck Installment Purchase Agreement of 1999 due in annual installments of \$40,000 through April 2009; interest at 4.25%	160,000
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Compensated absences	811,920
	315,955
	<u>\$ 1,127,875</u>

**Business-type activities:**

**General obligation bonds:**

\$7,000,000 General Obligation Bonds of 2004 due in annual installments of \$250,000 to \$495,000 through November 2025; interest at rates varying from 3.00% to 4.85%	\$ 7,000,000
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Less bond discount	(61,991)
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\$577,304 Muskegon County Wastewater Management - Number One Refunding Bond of 2002 due in annual installments of \$196,683 to \$212,860 through July 2008; interest at rates varying from 2.25% to 5.00%	620,403
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\$1,615,250 Muskegon County Wastewater Management contract payable beginning in 2008; interest at 1.625%	114,235
	<u>\$ 7,672,647</u>

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE J—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The general obligation bonds are backed by the full faith and credit of the Township.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The Township has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the Township. Current debt service requirements are funded by sewer revenues.

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including Muskegon Charter Township, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the debt allocated to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation will increase by about 21 percent. The financial impact on the Township in 2005 was about \$29,000. This bond will be fully retired in 2008. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units, including the Township. The financial impact on the Township in 2005 was about \$33,000.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2005 follows:

Year ending December 31,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2006	\$ 284,018	\$ 36,610	\$ 462,860	\$ 319,227
2007	160,267	23,629	470,861	302,932
2008	165,267	15,790	461,683	286,418
2009	100,267	9,546	270,000	269,838
2010	55,267	4,811	394,234	260,387
2011-2015	46,834	3,955	1,550,000	1,129,438
2016-2020	-	-	1,850,000	786,645
2021-2025	-	-	2,275,000	335,640
	<u>\$ 811,920</u>	<u>\$ 94,341</u>	<u>\$ 7,734,638</u>	<u>\$ 3,690,525</u>



Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE K—OTHER INFORMATION**

**Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability, property and insurance coverage as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

**Post-Retirement Health Care**

The Township has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were 23 retired employees receiving benefits. The Township finances the Plan on a pay-as-you-go basis. For the year ended December 31, 2005, the Township's post-retirement health care cost under the Plan was approximately \$165,000.

**Commitments**

At December 31, 2005, the Township had entered into various agreements for construction projects. Below is a summary of those agreements:

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining commitment</u>
Sewer	Sewer system expansion	\$ 541,276	\$ 621,742

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE L—RETIREMENT PLANS**

**Pension Plan**

*Plan Description.* The Township is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Township. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Muskegon Charter Township  
1990 E. Apple Avenue  
Muskegon, MI 49442

*Funding Policy.* Township employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The Township is required to contribute at an actuarially-determined rate depending upon position from 11.17 to 12.72 percent of covered wages.

*Annual Pension Cost.* For the year ended December 31, 2005, the Township's annual pension cost was approximately \$297,000 which the Township contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

<u>Year ended</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/03	\$ 253,000	100 %	\$ -
12/31/04	284,000	100	-
12/31/05	297,000	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

*(Dollars amounts in thousands)*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/02	\$ 7,785	\$ 9,723	\$ 1,938	80 %	\$ 2,315	84 %
12/31/03	8,353	10,496	2,143	80	2,475	87
12/31/04	8,879	10,892	2,013	82	2,496	81

Muskegon Charter Township  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2005

**NOTE L—RETIREMENT PLANS—Continued**

**Deferred Compensation Plan**

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Township employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE M—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 38 percent of General Fund revenues.

**NOTE N—SUBSEQUENT EVENT**

Subsequent to year end, the Township entered into contracts of \$8,217,760 for sewer improvements. These improvements will be paid for with the issuance of long-term debt. The Township also entered into contracts of \$385,040 for water improvements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Muskegon Charter Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended December 31, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 1,519,000	\$ 1,519,000	\$ 1,491,563	\$ (27,437)
Licenses and permits	361,100	361,100	346,943	(14,157)
Intergovernmental revenues				
Federal	-	171,755	165,923	(5,832)
State	1,680,100	1,680,100	1,715,620	35,520
Charges for services	293,240	293,240	346,083	52,843
Fines and forfeitures	45,500	45,500	31,588	(13,912)
Investment earnings	35,000	35,000	69,023	34,023
Other	79,100	83,600	82,793	(807)
Total revenues	4,013,040	4,189,295	4,249,536	60,241
EXPENDITURES				
Current				
General government				
Board of trustees	26,388	26,388	26,204	184
Supervisor	58,202	58,202	58,370	(168)
Elections	4,200	9,170	9,153	17
Financial administration	186,001	230,851	235,266	(4,415)
Clerk	187,918	187,918	164,261	23,657
Treasurer	132,477	133,522	131,316	2,206
Township hall	75,600	75,950	65,067	10,883
Board of appeals	1,700	1,700	1,286	414
Public safety				
Police department	911,173	911,573	921,152	(9,579)
Fire department	754,650	926,905	923,868	3,037
Inspection department	197,562	200,767	187,262	13,505
Public works				
Highways and streets	343,662	356,162	362,179	(6,017)
Leaf collection	15,000	15,000	19,546	(4,546)
Community and economic development				
Planning	42,300	24,300	24,434	(134)
Culture and recreation				
Parks and recreation	123,500	129,720	132,051	(2,331)
Other governmental functions				
Insurance	831,000	846,000	821,683	24,317
Payroll benefits	631,700	579,305	493,271	86,034
Other	28,450	33,418	26,812	6,606
Debt service				
Principal	35,000	35,000	35,000	-
Interest and fees	7,110	7,110	7,110	-
Capital outlay	22,000	15,780	58,147	(42,367)
Total expenditures	4,615,593	4,804,741	4,703,438	101,303
Excess of revenues over (under) expenditures	(602,553)	(615,446)	(453,902)	161,544
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	16,000	16,000	4,445	(11,555)
Transfers in	89,000	89,000	89,000	-
Transfers out	(14,000)	(14,000)	(10,000)	4,000
Total other financing sources (uses)	91,000	91,000	83,445	(7,555)
Net change in fund balance	\$ (511,553)	\$ (524,446)	(370,457)	\$ 153,989
Fund balance at January 1, 2005			787,865	
Fund balance at December 31, 2005			\$ 417,408	

Muskegon Charter Township  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Public Safety Fund  
For the year ended December 31, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 586,429	\$ 586,429	\$ 583,574	\$ (2,855)
Investment earnings	500	500	3,216	2,716
Other	13,400	6,500	2,414	(4,086)
Total revenues	600,329	593,429	589,204	(4,225)
EXPENDITURES				
Current				
Public safety	477,829	486,129	438,710	47,419
Debt service				
Principal	70,000	70,000	70,000	-
Interest and fees	7,500	7,500	7,190	310
Capital outlay	45,000	40,000	40,184	(184)
Total expenditures	600,329	603,629	556,084	47,545
Excess of revenues over (under) expenditures	-	(10,200)	33,120	43,320
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	5,000	4,065	(935)
Net change in fund balance	\$ -	\$ (5,200)	37,185	\$ 42,385
Fund balance at January 1, 2005			63,549	
Fund balance at December 31, 2005			\$ 100,734	

## **OTHER SUPPLEMENTAL INFORMATION**

**Muskegon Charter Township**  
**COMBINING BALANCE SHEET**  
Other Governmental Funds  
December 31, 2005

		Special Revenue						Capital Projects	Debt Service			
	Total other governmental funds	Fire Equipment	Street Lighting	Northside Water System	Economic Development	Northside Water System II	Southside Water System	2003 Paving Project	1996 Paving Project	1998 Paving Project	2000 Paving Project	2001 Paving Project
ASSETS												
Cash and investments	\$ 995,717	\$ 77,167	\$ 68,953	\$ 285,119	\$ 123,974	\$ 159,797	\$ -	\$ 69,927	\$ 34,722	\$ 55,965	\$ 60,093	\$ 60,000
Receivables												
Accounts	2,034	-	-	-	1,328	706	-	-	-	-	-	-
Property taxes	217,214	-	98,261	118,953	-	-	-	-	-	-	-	-
Special assessments	450,658	-	-	-	-	70,970	-	171,323	11,260	27,874	48,609	120,622
Due from other governmental units	55,310	-	-	-	55,310	-	-	-	-	-	-	-
Due from other funds	63,000	53,000	10,000	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 1,783,933</u>	<u>\$ 130,167</u>	<u>\$ 177,214</u>	<u>\$ 404,072</u>	<u>\$ 180,612</u>	<u>\$ 231,473</u>	<u>\$ -</u>	<u>\$ 241,250</u>	<u>\$ 45,982</u>	<u>\$ 83,839</u>	<u>\$ 108,702</u>	<u>\$ 180,622</u>
LIABILITIES AND FUND BALANCES (DEFICITS)												
Liabilities												
Accounts payable	\$ 73,005	\$ -	\$ 13,438	\$ -	\$ 59,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	272	-	-	-	-	272	-	-	-	-	-	-
Due to other funds	234,443	89,000	-	126,650	-	18,793	-	-	-	-	-	-
Deferred revenue	724,527	-	161,018	191,582	-	59,381	-	140,669	-	21,462	41,812	108,603
Advances from other funds	286,000	-	-	-	-	-	-	286,000	-	-	-	-
Total liabilities	1,318,247	89,000	174,456	318,232	59,567	78,446	-	426,669	-	21,462	41,812	108,603
Fund balances (deficits)												
Reserved for debt service	247,268	-	-	-	-	-	-	-	45,982	62,377	66,890	72,019
Unreserved												
Undesignated	218,418	41,167	2,758	85,840	121,045	153,027	-	(185,419)	-	-	-	-
Total fund balances (deficits)	465,686	41,167	2,758	85,840	121,045	153,027	-	(185,419)	45,982	62,377	66,890	72,019
Total liabilities and fund balances (deficits)	<u>\$ 1,783,933</u>	<u>\$ 130,167</u>	<u>\$ 177,214</u>	<u>\$ 404,072</u>	<u>\$ 180,612</u>	<u>\$ 231,473</u>	<u>\$ -</u>	<u>\$ 241,250</u>	<u>\$ 45,982</u>	<u>\$ 83,839</u>	<u>\$ 108,702</u>	<u>\$ 180,622</u>



Muskegon Charter Township  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)**  
Other Governmental Funds  
For the year ended December 31, 2005

	Total other governmental funds	Special Revenue						Capital Projects	Debt Service			
		Fire Equipment	Street Lighting	Northside Water System	Economic Development	Northside Water System II	Southside Water System	2003 Paving Project	1996 Paving Project	1998 Paving Project	2000 Paving Project	2001 Paving Project
REVENUES												
Property taxes	\$ 145,821	\$ -	\$ 145,821	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues - federal	157,355	-	-	-	157,355	-	-	-	-	-	-	-
Charges for services	433,216	250,309	-	182,907	-	-	-	-	-	-	-	-
Investment earnings	17,612	1,908	599	4,304	1,785	3,117	-	1,681	798	1,185	1,282	953
Other	157,049	600	-	-	-	25,883	-	21,722	24,404	16,098	20,382	47,960
Total revenues	911,053	252,817	146,420	187,211	159,140	29,000	-	23,403	25,202	17,283	21,664	48,913
EXPENDITURES												
Current												
Public works	156,658	-	156,658	-	-	-	-	-	-	-	-	-
Other governmental functions	105,822	596	-	105,126	100	-	-	-	-	-	-	-
Debt service												
Principal	179,185	40,000	-	-	-	9,185	-	-	50,000	25,000	20,000	35,000
Interest and fees	36,543	8,500	-	-	-	4,488	-	-	4,330	4,219	6,263	8,743
Capital outlay	449,423	187,165	-	-	262,258	-	-	-	-	-	-	-
Total expenditures	927,631	236,261	156,658	105,126	262,358	13,673	-	-	54,330	29,219	26,263	43,743
Excess of revenues over (under) expenditures	(16,578)	16,556	(10,238)	82,085	(103,218)	15,327	-	23,403	(29,128)	(11,936)	(4,599)	5,170
OTHER FINANCING SOURCES (USES)												
Transfers in	70,694	50,000	10,000	-	-	-	-	10,694	-	-	-	-
Transfers out	(184,683)	(89,000)	-	(50,000)	-	(18,793)	(16,196)	-	(2,659)	-	(3,348)	(4,687)
Total other financing sources (uses)	(113,989)	(39,000)	10,000	(50,000)	-	(18,793)	(16,196)	10,694	(2,659)	-	(3,348)	(4,687)
Net change in fund balances (deficits)	(130,567)	(22,444)	(238)	32,085	(103,218)	(3,466)	(16,196)	34,097	(31,787)	(11,936)	(7,947)	483
Fund balances (deficits) at January 1, 2005	596,253	63,611	2,996	53,755	224,263	156,493	16,196	(219,516)	77,769	74,313	74,837	71,536
Fund balances (deficits) at December 31, 2005	\$ 465,686	\$ 41,167	\$ 2,758	\$ 85,840	\$ 121,045	\$ 153,027	\$ -	\$ (185,419)	\$ 45,982	\$ 62,377	\$ 66,890	\$ 72,019

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 16, 2006

Township Board  
Muskegon Charter Township  
Muskegon, Michigan

In planning and performing our audit of the financial statements of Muskegon Charter Township for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Muskegon Charter Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Township Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## REPORTABLE CONDITIONS

### *General*

Recommendation 1: Bank reconciliations should be reviewed and approved.

During our audit testing, we noted that bank reconciliations were not being reviewed and approved. This review procedure is necessary to determine whether all bank and general ledger activity for each month has been properly reconciled and that any unusual reconciling items have been investigated and resolved.

The review and approval of bank reconciliations by an appropriate official would strengthen the review process of cash transactions.

Recommendation 2: County records for activity in the Economic Development Administration project and in the Sewer Bond Anticipation Note should be regularly reconciled.

During our audit testing, we noted that County records for both the EDA and BAN projects were not regularly obtained and reconciled by the Township.

Regularly obtaining and reconciling County records for the EDA and BAN projects would help to ensure that funds are being properly spent and accounted for by the County.

Recommendation 3: Budgets for all special revenue funds should be adopted.

Michigan Public Act 621 of 1978 (Act 621) requires a budget be adopted for all special revenue funds. During our audit testing, we noted that Township had not adopted a budget for the Economic Development Fund.

The adoption of a budget for all special revenue funds would ensure compliance with Act 621.